

# REVIEW RESOURCES

## Lesson 11: Financial Management: Program/Budget Execution

### Budget Allocation Process (Apportionment)

After Congress passes the DOD Appropriations Bill and the President signs it, then the Office of Management and Budget (OMB) distributes the Budget Authority to the DOD. This distribution is called Apportionment.

The funds can then be obligated for the programs and needs defined in the budget development process.

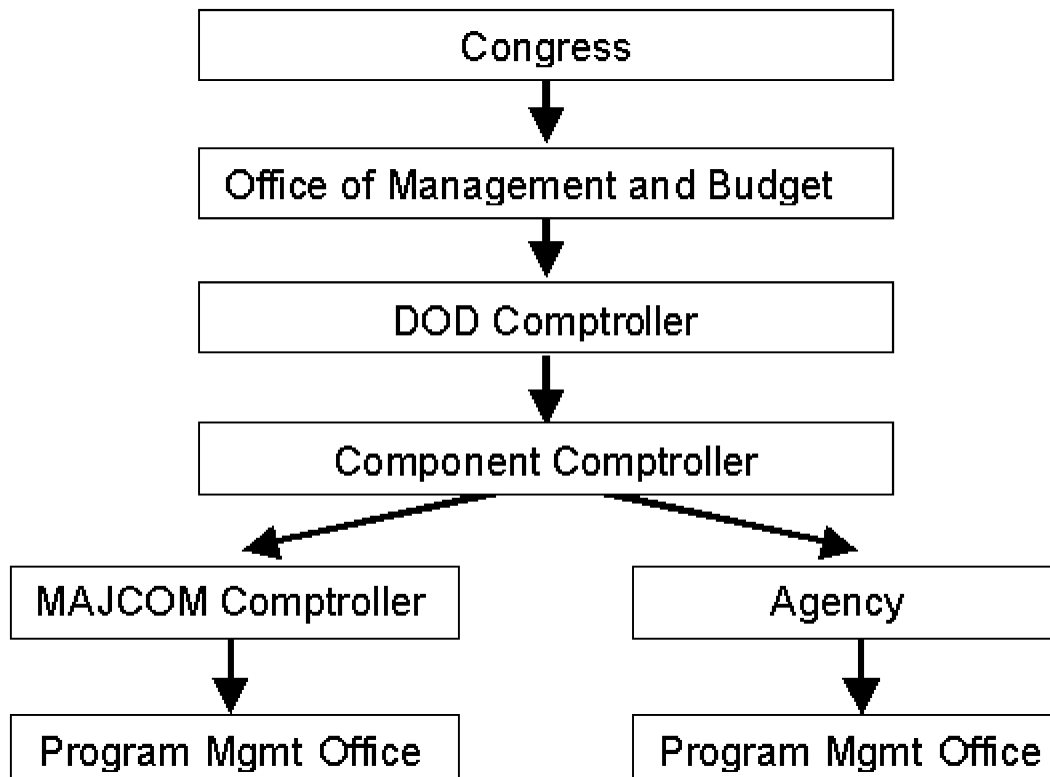
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### Flow of Funds

The Office of Management and Budget (OMB) apportions funds (Budget Authority) to the DOD Comptroller on a quarterly, annual, or other periodic basis, depending on the appropriation.

Following the apportionment of funds to the DOD Comptroller, the funds flow through a service or agency comptroller to a local comptroller in the product, buying, or operating command.



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### Withholding of Funds ("Taxes")

As the funds flow through the DOD service comptrollers, and major command or local comptrollers, a small percentage of funds may be withheld for contingency purposes. These funds are unofficially referred to as "taxes" or "withholds." Taxes and withholds give the services the flexibility to meet minor contingencies.

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### Apportionment Documentation

The Apportionment process can take several days. A signed document accompanies and carries out the actual movement of funds. The program office cannot obligate funds until the authority (i.e., paperwork) reaches the comptroller for the program office.

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### Expiration of Funds

Each appropriation has a legal time limit, or "life," within which funds can be obligated.

The following table shows the "life" for each appropriation.

| Appropriation Categories                                     | Obligation Period        |
|--|--------------------------|
| Research, Development, Test, and Evaluation (RDT&E)          | 2 years                  |
| Procurement<br><br>(Shipbuilding and Conversion, Navy (SCN)) | 3 years<br><br>(5 years) |
| Operations and Maintenance (O&M)                             | 1 year                   |
| Military Personnel (MILPERS)                                 | 1 year                   |
| Military Construction (MILCON)                               | 5 years                  |

### Research, Development, Test, & Evaluation (RDT&E)

The RDT&E appropriation category funds the following types of activities:

- Development of equipment, material, or computer application software
- Development Test and Evaluation (DT&E)
- Initial Operational Test and Evaluation (IOT&E)
- Operational costs for R&D dedicated installations

## Procurement

The Procurement appropriation category funds the following types of items and activities:

- Purchase of major end items and defense systems.
- Initial issue of spares for above items.
- All costs necessary to deliver a useful end item intended for operational use or inventory.

## Shipbuilding and Conversion, Navy (SCN)

Part of the Procurement appropriation category is broken out separately because it has a longer "obligation" period than other procurement accounts. SCN is used to fund procurement and overhaul Naval ships.

## Operations and Maintenance (O&M)

The O&M appropriation category funds the following types of items and activities:

- Day-to-day operations
- Headquarters operations
- Civilian salaries
- Travel
- Fuel
- Minor construction
- Training and education
- Expenses of operational military forces
- Base operations support
- Recruiting

## Military Personnel (MILPERS)

The MILPERS appropriation category funds the following types of items:

- Pay and allowances of active duty and reserve military personnel
- Permanent Change of Station (PCS) moves
- Training in conjunction with PCS moves
- Subsistence
- Bonuses
- Retired pay accrual

## Military Construction (MILCON)

The MILCON appropriation category funds the following types of items:

- Major military construction projects
- Construction of military schools
- Construction of facilities
- Construction of bases

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## Expired Funds

After the funds have passed their obligation period (e.g., RDT&E is 2 years), they go into the "Expired Account" and cannot be used for new obligations. Funds are canceled 5 years after the end of the

obligation period.

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## Obligation

An "obligation" is the legal reservation of funds to make a future payment of money. The obligation is incurred as soon as an order is placed, or a contract is awarded for the delivery of goods and/or performance of services.

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## Outlay

An "outlay" occurs when the vendor cashes the expenditure check and money flows from the Treasury to the vendor or supplier. With the advent of Electronic Funds Transfer (EFT) the time between expenditure and outlay can be momentary.

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## "Expired Funds"

- Funds remain in the "Expired Account" for 5 years after the obligation period ends.
- Funds in the "expired account" may be used to make expenditures on existing obligations and adjustments to obligations.
- While in the "expired account," funds retain all their fiscal identity (i.e., appropriation, fiscal year, and amount).

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## Cancellation of Funds

After the 5-year "Expired" period has passed, the funds are canceled and can no longer be used. Any remaining outlay requirements after funds have been cancelled must be paid for using current year funds.

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## Misappropriation Act

Title 31, U.S. Code, Section 1301, known as the Misappropriation Act, requires that funds appropriated by Congress be used only for the programs and purposes for which the appropriation is made.

For example, an agency cannot use RDT&E funds to purchase major weapons systems (aircraft, missiles, tanks, etc.).

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## Anti-Deficiency Act

Title 31, U.S. Code, Sections 1314 and 1517, known as the Anti-Deficiency Act:

- Prohibits an obligation in excess of the appropriated amount or amount permitted by agency regulations.
- Forbids contract or obligation in advance of appropriations.
- Requires agency regulations to monitor and fix responsibility for violations of the act.

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### Need for Reprogramming Authority

Congress recognizes the need for some flexibility in budget execution. Accordingly, Congress has provided the DOD with a method to make limited changes in its appropriated funding.

Reprogramming permits the use of funds for purposes other than those originally intended by Congress. Depending on the circumstances, approval for reprogramming may be internal to the DOD or may involve Congress.

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### Congressional Prior Approval Reprogramming

Congressional Prior Approval Reprogramming is required for actions involving:

- Congressional Special Interest Items
- Major system procurement quantity increases
- General Transfer Authority

Congressional Prior Approval Reprogramming requires:

- Approval by the Secretary of Defense, and
- Approval by the key Congressional committees:
  - House National Security Committee (HNSC)
  - Senate Armed Services Committee (SASC)
  - House Appropriations Committee (HAC)
  - Senate Appropriations Committee (SAC)

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### Congressional Notification Reprogramming

Congressional Notification Reprogramming is required for:

- Actions that exceed the dollar threshold limits for below threshold reprogramming.
- Starting new programs that have significant follow-on costs.

Congressional Notification Reprogramming requires:

- Approval by the Secretary of Defense.
- Written approval by SASC and SAC.
- That the House must act within 15 days or approval is assumed.

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### Internal Reprogramming

Internal Reprogramming actions:

- Do not involve a change in the purpose or amounts approved by Congress.
- Must be approved by the DOD Comptroller.
- Apply mainly to administrative realignment of funds.

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### Below Threshold Reprogramming

Most reprogramming actions that involve defense systems are accomplished using Below Threshold Reprogramming.

Below Threshold Reprogramming:

- Allows the transfer of funds among programs within an appropriation category, but it is subject to certain rules and limitations.
- Is controlled and approved by local or service/defense agency comptrollers.
- Does not require Congressional involvement.

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### Below Threshold Reprogramming—Dollar Thresholds

Congress placed strict dollar limits, or thresholds, on when DOD may use Below Threshold Reprogramming.

- These thresholds limit the amount of funding that may be transferred into or out of affected accounts.
- These thresholds vary by appropriations category.

This table summarizes the limitations on Below Threshold Reprogramming into and out of a program.

| Appropriations | Reprogramming  |                           |
|----------------|----------------|---------------------------|
|                | Into or Out of |                           |
| RDT&E          | +\$4M          | Greater of -\$4M or -20%  |
| Procurement    | +\$10M         | Greater of -\$10M or -20% |
| O&M            | +\$15M         | -\$15M                    |
| MII PERS       | +\$10M         | No Restriction Specified  |

|                                     |                           |                             |
|-------------------------------------|---------------------------|-----------------------------|
| MILCON                              | Lesser of<br>+\$2M or 25% | No Restriction Specified    |
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### Below Threshold Reprogramming Limitations

While Below Threshold Reprogramming allows limited transfer of funds among programs, Below Threshold Reprogramming **cannot** be used to:

- Transfer funds that require Congressional involvement (e.g., Congressional Prior Approval).
- Change the appropriation category of any funds (e.g., Change RDT&E funds into O&M funds.)
- Change the fiscal year (FY) of any funds (e.g., Change FY 98 funds into FY 97 funds).

### Below Threshold Reprogramming (BTR): Example

The Army Comptroller may reprogram FY 97 Procurement funds from the Commanche Program into the Apache FY 97 Procurement account.

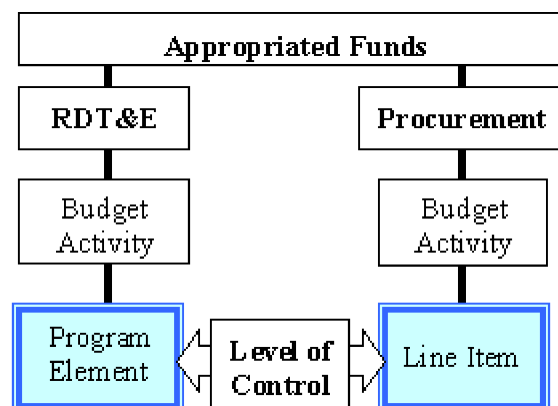
Those funds may **not** be reprogrammed into Apache's RDT&E account using Below Threshold Reprogramming. Because such a transfer would involve changing appropriation categories, Congressional involvement would be required.

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### Below Threshold Reprogramming—Level of Control

The reprogramming thresholds are applied at the "level of control" of that appropriation category. The "level of control" for RDT&E is the Program Element. The "level of control" for Procurement is the Line Item.

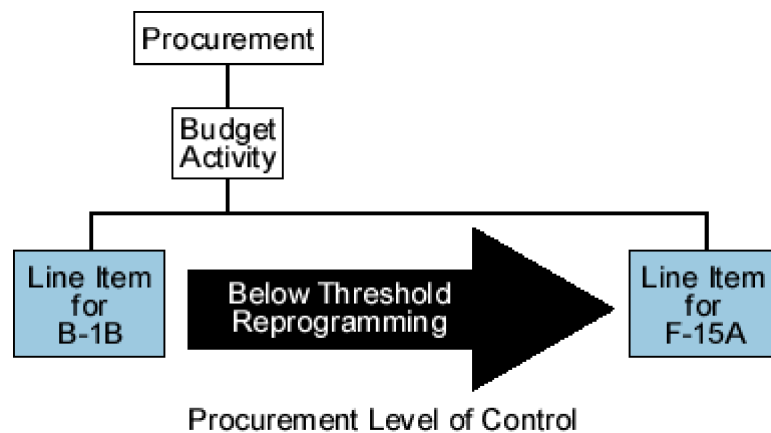


Shown below is a summary of the thresholds and levels of control for the key acquisition-related appropriations.

| Appropriations | Reprogramming          |                              | Controlled at   |
|----------------|------------------------|------------------------------|-----------------|
|                | Into or Out of         |                              |                 |
| RDT&E          | +\$4M                  | Greater of -\$4M<br>or -20%  | Program Element |
| Procurement    | +\$10M                 | Greater of -\$10M<br>or -20% | Line Item       |
| O&M            | +\$15M                 | -\$15M                       | Budget Activity |
| MILPERS        | +\$10M                 | No Restriction Specified     | Budget Activity |
| MILCON         | Lesser of +\$2M or 25% | No Restriction Specified     | Project         |

### Below Threshold Reprogramming—Level of Control: Example

The Air Force Comptroller may reprogram up to \$10 million into the F-15A Line Item from the B-1B Line Item.

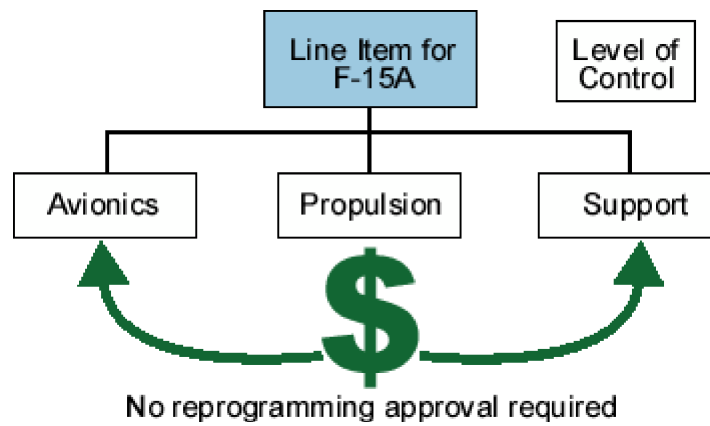


### Below Threshold Reprogramming—Below Level of Control

Realigning funds between activities that are below the level of control for that appropriation category does not require a reprogramming action.

This type of funds transfer can be approved by the Program Manager.



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